November 18, 2020 – Cook Interview/COMEX Showdown?

Interview with Jim Cook

Let me start today with a recent interview I did with Jim Cook, president of Investment Rarities, Inc. In keeping with the question of where does the time go, it has now been more than 20 years since IRI has sponsored my work. Back then, in the year 2000, I was already alleging a silver manipulation on the COMEX for more than 15 years due to a concentrated short position on the COMEX, and if you told me I would be writing the things I write about today – like the role of JPMorgan – I wouldnâ??t have believed you. Then again, when you rely on the hard data and public facts, truth can be stranger than fiction.

Cook: What is the reason for the extreme price volatility in the silver market?

Butler: We're reaching the end of the line, in terms of the final resolution and the train is shaking so much, it looks to be coming off the tracks.

Cook: Is this a good thing?

Butler: Itâ??s the best thing possible, because it signifies an end to the price control.

Cook: What will that do?

Butler: It should set the price free. The only reason silver has been so cheap is because a few big short sellers on the COMEX have suppressed the price. But growing physical demand has put these big short sellers in a bind and they are losing more money than they ever dreamed possible.

Cook: What about JPMorgan – aren't they a big part of the short sellers?

Butler: JPM used to be the biggest COMEX short seller, but they managed not only to slip out from all their paper short positions, but build up a tremendous physical silver and gold position over the years. JPM went from the biggest short seller to the biggest long ever seen. It's quite remarkable and extraordinarily bullish.

Cook: Are you saying physical demand is now such that it can overcome paper trading on the futures market?

Butler: Yes, exactly – but with the added kicker that the former biggest paper manipulator, JPMorgan, is now the biggest physical long.

Cook: Where is this great demand coming from?

Butler: Everywhere, namely, both retail and wholesale. Of course, wholesale demand has the biggest impact on price. Since the middle of March, some 400 million physical ounces have been demanded and have come into the COMEX warehouses and the world’s ETFs.

Cook: Can you put that quantity of silver into perspective?

Butler: 400 million ounces represents 20% of the worldâ??s silver bullion. Thatâ??s in the form of industry standard good delivery 1,000 ounce bars. Of the 2 billion ounces of silver that exists in the world, 75% of it is already in the silver ETFs and COMEX warehouses. Thatâ??s 1.5 billion ounces of silver. Whatâ??s even more astonishing is that 400 million ounces is 50% of annual world mine production and the transactions for that much silver did not do much to the price.

Cook: How can 400 million ounces change hands without an enormous price eruption?

Butler: Thereâ??s only one explanation. The paper positioning on the COMEX sets the price no matter what else is happening in the world of silver. That such a massive amount flowed into the ETFs and the COMEX in such a short period of time is all anybody should be talking about, especially since this is going to end soon.

Cook: How great might the loss be for the big short sellers?

Butler: At this point, the 8 largest shorts in gold and silver are out around $13 billion, mostly on theÂ rally in gold over the past year or so. But with silver having moved higher recently, they are starting to lose big on silver. At this point every dollar higher on silver creates an additional $370 million in losses for the 8 biggest shorts. A ten dollar move will cost them $3.7 billion from here and a twenty dollar move $7.5 billion. And that’s just for starters.

Cook: Is this what they call a short squeeze?

Butler: Yes and the move up in gold and silver at this point already qualifies as one of largest, if not theÂ largest short squeeze in history.

Cook: Where can these short sellers possibly get the silver they need to cover their short positions?

Butler: Getting the physical silver to deliver at this point is not really possible â?? the most practical course for them is to buy back their shorts, which will only add upside fuel to the coming price fire.

Cook: How high can silver go?

Butler: After watching the prices ofÂ so manyÂ things, like stocks and Bitcoin, move far higher than I ever would have imagined, I can’t help but believe that silver will move far higher than I previously imagined -well over $100 or $200. Certainly silver has better fundamentals than anything else out there.

Cook: Is it possible the government will get involved because some of these banks who are short are considered too big to be allowed to fail?

Butler: Should the government openly move to aid the banks which are short silver that would be letting the whole world know that the price had been suppressedÂ and serve as a personal invitation for everyone to buy silver.

Cook: These big shorts have crushed the price many times in the past. What if they strike again?

Butler: They may, but the tide is moving against them. Try coming up with a legitimate reason for being heavily short silver at prevailing prices and watch yourself get laughed out of the room.

Cook: One of your strongest arguments for silver is that the price is artificially low because of the concentrated short position. Could you call silver a value investment?

Butler: Silver is the ultimate value investment, not only because it is so darn cheap, but because it is absolutely vital for modern life. We are going to have a pitched battle between industrial silver users who need silver to stay in business and investors seeking outsized gains.Â Do you not believe this was behind JPMorgan’s accumulation of one billion ounces of physical silver?

Cook: One last question. If the situation is so dire for the big shorts as you suggest, why havenâ??t they started to at least reduce their short positions over the last year?

Butler: That’s an excellent question. Best I can determine, they only react when they are forced to. In gold, it wasn’t until the 8 big shorts were out more than $5 billion before they started to bring in enough physical gold to offset their growing open losses. Since silver only started to rally strongly this summer (compared to the gold rally which started a year earlier), the 8 big shorts haven’t had enough time to react. There’s been some recent increase in COMEX silver warehouse stocks, but nowhere near enough to offset their paper shorts. More to the point, I don’t think the 8 big shorts can come up with the 300 million+ physical ounces they need in silver. That leaves buying back these short positions as the only practical remedy and that means a price explosion. I once wrote that when silver goes off, it will be like an atom bomb on a hydrogen bomb on a neutron bomb.

Cook: Wow! The silver story must be the best kept secret on earth.

Butler: I’m trying my best to make others see it. I donâ??t think there will be anything like it again in my lifetime.

Showdown at the COMEX Corral?

The price correction or consolidation in gold and silver has now been in force for more than three months, with the last two months featuring prices mostly below the key 50 day moving average. This has persuaded those traders motivated by the moving averages, mostly those in the managed money category, to respond by liquidating net long positions in gold and maintaining, but not increasing net long positions in silver. This is the basis for me characterizing the COMEX market structure in each as â??washed outâ?•, meaning the odds of a deep and protracted selloff as limited (but never completely impossible given the corrupt nature of price setting on the COMEX).

In addition to the washed out nature of the market structure in gold, another interesting phenomenon has emerged, namely, the sharp increase in the net long position of the traders in the other large non-commercial reporting category â?? traders I characterize as â??who are those guys?â?• As I reported in Mondayâ??s COT report comments, the other large traders now hold a record large net long position in gold of 160,000 contracts, which is double the 80,000 contracts held net long by the managed money traders.

What I didnâ??t mention was that, not coincidently, the combined long position of both sets of traders of 240,000 net gold contracts just happens to nearly match the concentrated short position of the 8 largest commercial shorts of just over 238,000 contracts. Iâ??d ask you (and the regulators) to think about this for a moment. Here we have the two largest long categories of traders (managed money and other large reporting traders) which collectively number 213 traders on the long side as holding, essentially, the same size position as the 8 largest shorts. This goes to the core of my manipulation by concentration allegation, an allegation the regulators havenâ??t responded to in more than a decade in the case of the CFTC and decades, if ever, for the CME Group.

Moreover, none of these 8 large short traders appear to be the type of short seller one typically visualizes, namely, mining companies hedging production. Thatâ??s because there are separate public accounting regulations requiring individual mining companies to fully disclose such hedging. None, to my knowledge, has so reported.

Of course, the 8 big shorts, thanks to the tremendous amount of physical gold (nearly 30 million oz or the equivalent of 300,000 COMEX contracts) shipped into the COMEX warehouses earlier this year could now be said to have the physical goods backing up their concentrated short sales. But please consider this â?? just because the big shorts were able to round up and deposit one percent of the worldâ??s gold bullion to â??showâ?• they had the goods, does that completely exonerate and excuse their manipulative intent? These 8 big shorts knew all along (as did the regulators) that they were manipulating prices with their concentrated short sales, so should bringing in the goods allow them to continue the manipulation?

These big shorts still sold gold short many hundreds of dollars lower and have racked up many billions of dollars in losses (or lost real profit opportunity) for having sold too soon and that is fitting, to say the least. But my point is different, namely, since their intent was not to hedge 25 to 30 million oz of gold when they first sold short in June 2019, but instead to make a quick profit at the expense of the managed money traders, it is not fair to consider what they did as any type of legitimate hedge. It was a speculative ploy that blew up in their faces and to look at it any other way is to let these would be manipulators off the hook. Then again, the 8 big traders have apparently been double crossed by the master crooks at JPMorgan, so they are still likely to get their comeuppance.

In silver, about 70 million oz have come into the COMEX warehouses, equating to 14,000 COMEX silver contracts, leaving the 8 big shorts some 300 million oz or 60,000 contracts shy of matching their current 74,000 contract (370 million oz) concentrated short position. Bringing in one percent of the worldâ??s gold bullion is one thing; bringing in 15% of the worldâ??s silver bullion would seem to be quite a different matter. To be sure, for the 8 big shorts to borrow metal from JPMorgan at this point only puts them deeper into a hole that may be long past the point of no return.

All these thoughts race through my head as we, once again, approach what is traditionally the heaviest delivery month of the year on the COMEX in the December contract which is the only traditional delivery month shared by both gold and silver and which is only two weeks away. Itâ??s an unavoidable conclusion quickly reached by anyone studying the metals that one day, particularly in silver, that there is likely to be some type of delivery drama where there may not be sufficient physical metal available to satisfy the demands for physical metal. Therefore, itâ??s natural for such thoughts to increase as big delivery months approach.

At the same time, you can count on one hand (with five fingers remaining), the number of times COMEX delivery demands have overwhelmed the sellersâ?? ability to deliver. And itâ??s a standard feature for there to be large and seemingly impossible to satisfy numbers of contracts standing for delivery, only for those contracts to be rolled over to more deferred months as first notice of delivery day approaches. Thatâ??s because those trading COMEX futures from the long side are generally not interested in taking physical delivery, which coincides with a lack of desire for making delivery from those on the short side. Plus, since the advent of precious metals ETFs some 15 years ago, those vehicles more closely fit the needs of investors wishing to hold a near physical proxy on a fully paid for basis as opposed to a leveraged futures derivatives position.

Then again, 2020 has been a very strange year in terms of unusual gold and silver developments and there is no way to overlook the potential significance of the approaching COMEX December deliveries in such a year. Plus, there has been a somewhat unusual â??tighteningâ?• of the intra-month spreads very recently, which may suggest a greater urgency on the part of those short December to move positions to more distant months, instead of waiting longer than typically to do so.

My sense is that it wouldnâ??t take much to set off a price explosion based upon everything I look at. In fact, itâ??s more a case of what the heck is taking so long? It seems that everything that could possible explode in price has or is exploding in price, with the most notable exception being silver. And I say this in the face of silver being higher now than it has been in many years (save for the consolidation of the past few months). As for why silver hasnâ??t exploded by now, look no further than the concentrated short position of the 8 big shorts. Earlier, I made the observation that the 8 big shorts in COMEX gold futures held nearly as large a net short position as the net long position of the two largest non-commercial trading categories. In silver, itâ??s much more egregious.

The 8 largest shorts in silver (all commercials) hold a larger net short position (74,400 contracts) than the net long position (less than 60,000 contracts) of all three non-commercial categories (managed money, other large reporting and smaller non-reporting traders). In other words, depending on how many traders may be in the non-reporting category (many hundreds to a few thousand), 8 big silver shorts hold a much larger net short position than do all the non-commercial net longs put together.

Some other commercials â?? the raptors are also long about 15,000 net silver contracts. In gold, there are about 45,000 additional contracts held short by commercials other than the big 8, but that is not the case in silver where if the 8 big shorts didnâ??t exist there would, be no commercial short position at all.In the past, I have characterized the short position of the 8 big COMEX traders as being aligned against the rest of the world â?? and here is a case of these 8 big silver traders as being aligned against thousands of long traders on the COMEX. Â It is not possible that this documented and verifiable short position is not the most manipulative position of all-time.

And while there is no question that the unprecedented concentrated short position in COMEX silver is highly illegitimate in that it is not only not held by legitimate mining producers, there is also no evidence it is mostly backed by real metal, as looks likely in the case of gold. And even if were backed by metal, that doesnâ??t legitimize its manipulative effect. Finally, ask yourself in this current day and set of circumstances, who in their right mind would choose to be massively short silver? I would remind you that after you quickly exhaust any list of possible legitimate explanations, all you will be left with is a very short list of illegitimate explanations â?? all pointing to price manipulation.

In fact, it is precisely the blatant and obvious nature of the concentrated short position in COMEX silver that dooms it. Since it canâ??t be defended, it is only a matter of time before it is sufficiently exposed to the point where anyone looking to make a buck in this world – anywhere from tens of millions to billions of people – will come to see the set up for big profits in silver. One would think of all the mega-investors out there, currently plowing into everything from every story stock possible to Bitcoin and other crypto-currencies, it will take just a few to launch silver upwards. This is a question of when, not if.

And for why the 8 big traders remain so massively short in silver, itâ??s not like they can simply click the heels of their ruby slippers and blink their eyes and be free from the position. There are only two ways to close out a short position â?? deliver against it or buy it back. Attempting either will crush the shorts. As for why they have waited so long to choose either, who rushes to take a big loss?

Most glaring of all is the continued absence of any type of legitimate rebuttal or explanation for why the concentrated short position in silver has not and is not manipulating and suppressing the price. In a world gone mad with counter-arguments of every stripe and cloaked in the anonymity of the Internet, you would think that someone, anyone, would have been able to come up with a legitimate-sounding argument as to why the concentrated short position in COMEX silver doesnâ??t really matter. I donâ??t just mean the regulators who have a responsibility to respond, but any of the millions (billions) of those who love to point out and explain why you are wrong and they are right. I find this simply amazing.

As far as what to expect in Fridayâ??s COT report, gold and silver prices were marginally higher over the reporting week ended yesterday and total open interest did increase by about 10,000 contracts in gold and 6000 in silver, so I wouldnâ??t be surprised by some mild deterioration (managed money buying and commercial selling). Although itâ??s possible that roll-overs from December might have resulted in increased spread trading and an artificial increase in total open interest. Significant positioning changes are not expected.

As far as how the 8 big shorts have fared since Fridayâ??s close, theyâ??re ahead for the week, but still deep in the hole from where I started keeping score in June 2019. For the week so far, they are better off by nearly $500 million or so, leaving them still stuck with more than $12.4 billion in total losses.

Ted Butler

November 18, 2020

Silver – $24.45Â Â Â Â Â Â (200 day ma – $20.41, 50 day ma – $24.75)

Gold – $1873Â Â Â Â Â Â Â Â (200 day ma – $1793, 50 day ma – $1909)

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